



TENNESSEE REGISTRY OF ELECTION FINANCE

Contribution Audit of Representative John Litz Third Quarter 2006



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August 1, 2007

Members of the Registry of Election Finance
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Ladies and Gentlemen:

Transmitted herewith are the agreed upon procedures for the un-itemized contribution audit of Representative John Litz's Third Quarter Financial disclosure Statement for his 2006 election campaign for the House of Representatives. This audit was conducted pursuant to the requirements of Section 2-10, *Tennessee Code Annotated*, the Comprehensive Governmental Ethics Reform Act of 2006.

The procedures were developed to aid the Registry of Election Finance in its responsibilities to monitor and enforce Tennessee's Campaign Financial Disclosure Law and Campaign Contribution Limits Law. The candidate is responsible for complying with campaign finance laws and the accuracy of campaign financial disclosures. The sufficiency of these procedures is solely the responsibility of the Registry's internal audit group. Consequently, we make no representation regarding the sufficiency of the agreed upon procedures described in the report for any other purpose than aiding the Registry.

This report is intended for the information and use of the Members of the Tennessee Registry of Election Finance as outlined; and is not intended to be and should not be used by anyone other than the Registry without understanding the objectives, purposes, and underlying assumptions. This report, however, is a matter of public record.

Sincerely,

Jay Moeck, CPA, CFE
Audit Manager

STATE OF TENNESSEE
REGISTRY OF ELECTION FINANCE

Audit Highlights
Representative John Litz
2006 Third Quarter Contribution Audit

AUDIT OBJECTIVES

The objectives of the audit were to determine Representative John Litz's compliance with certain provisions of campaign finance disclosure laws and regulations, compliance with certain provisions of campaign contribution limits laws and regulations, accuracy and completeness of the un-itemized contribution disclosures on his 2006 Third Quarter Campaign Financial Disclosure Statement, and to recommend appropriate actions to correct any deficiencies.

FINDINGS

1. Representative Litz failed to itemize all contributions from individuals who contributed more than \$100 during the reporting period. Rep. Litz did not itemize all contributions for each individual who contributed a total amount of more than one hundred dollars (\$100) during the third quarter. The six contributions represented \$530 or approximately 7% of the un-itemized contributions that the candidate should have itemized on his 2006 third quarter report. The improper classifications violated T.C.A. § 2-10-107(a)(2)(A)(i).

2. Representative Litz did not obtain adequate campaign data to report and verify his compliance with campaign finance laws. Rep. Litz held a fund raising event on September 15, 2006, where he attempted to obtain adequate contributor information for admission fees, contributions, and silent auction sales; however, the records were not sufficient to associate all contribution amounts to specific contributors for the 2006 third quarter. The inability to associate specific contributors with contribution amounts inhibits the candidate's and Registry's ability to verify compliance with campaign finance statutes.

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INTRODUCTION

AUDIT AUTHORITY

In February 2006, the Tennessee Legislators and Governor Phil Bredesen enacted the “Comprehensive Governmental Ethics Reform Act of 2006,” which amended Tennessee’s campaign finance disclosure laws and duties of the Registry of Election Finance. The legislation established the audits of campaign disclosure reports. *Tennessee Code Annotated* (T.C.A.) §§ 2-10-206 and 2-10-212 authorize the Registry of Election Finance (Registry) to conduct audits of campaign finance disclosure statements filed with the Registry. The audit was initiated based on T.C.A. § 2-10-212(i), which requires the Registry to audit any candidate that files a disclosure statement with more than 30% of the candidate’s contributions reported as un-itemized contributions and the un-itemized contributions were greater than \$5,000.

AUDIT PURPOSE

The Registry’s contribution audits were developed to assist and encourage candidate compliance with campaign disclosure laws. The audit process assists the Registry in providing timely and accurate campaign information to government officials and the general public. The Registry’s audits provide a tool to the Registry to evaluate the effectiveness of the campaign financial disclosure process. In addition, the audits assist the Registry with the enforcement of campaign finance limit laws and campaign finance disclosure laws. Finally, the audit reports are intended to assist the candidate and State of Tennessee in promoting governmental accountability and integrity.

AUDIT SCOPE

Tennessee’s campaign financial disclosure law requires candidates to make biannual financial disclosures as of the date of the first contribution or first expenditure, whichever occurs earlier. The biannual report periods are from January 16 to June 30 and July 1 to January 15 of each year. During an election year, the disclosures expand to quarterly reports, pre-primary reports, and pre-general reports. This audit relates to disclosures made subsequent to the passage and approval of the Comprehensive Governmental Ethics Reform Act of 2006. The act was approved on February 15, 2006. In addition, the audit relates to only disclosure reports that meet the requirements listed in T.C.A. § 2-10-212(i). Therefore, the audit reviewed only Representative John Litz’s disclosures on his 2006 third quarter report.

CAMPAIGN OVERVIEW

CAMPAIGN ORGANIZATION

Representative John Litz was a candidate in the November 7, 2006 general election for the House of Representatives for district 10. Rep. Litz filed an Appointment of Political Treasurer Statement with the Registry on December 14, 2004 appointing G. Keith Purkey as political treasurer.

The candidate's first financial disclosure for the 2006 campaign was the 2005 Early Supplemental report filed on January 31, 2006. As of June 30, 2007, the candidate's most current financial disclosure report was the 2006 fourth quarter amended report, which he filed on January 23, 2007. The 2006 fourth quarter amended report indicated \$32,745.86 in cash on hand, \$1,000.00 in outstanding obligations, and \$0.00 in outstanding loans. The candidate has not completed his 2006 election campaign reporting requirements. The candidate's next report will be due on July 16, 2007 and will cover the period of January 16, 2007 to June 30, 2007.

OVERVIEW OF FINANCIAL ACTIVITIES

The following financial amounts are a summary of the financial disclosures made by the candidate. The summarized amounts are from the following disclosure reports: 2005 early supplemental, 2006 first quarter, 2006 second quarter, 2006 pre-primary, 2006 third quarter, 2006 pre-general, and 2006 fourth quarter reports after amendments. As noted in the audit scope, we only audited the un-itemized contributions from disclosures for the 2006 third quarter. The amounts displayed are for informational purposes only.

<u>Summary of Financial Activity</u>		
<u>(Un-audited Amounts)</u>		
Cash on hand at January 1, 2005		\$18,133.60 1
Receipts		
Itemized	31,754.00	
Un-itemized	18,168.00	
Interest	232.37	
Loans receipted	0.00	
Total receipts		<u>\$50,154.37</u>
Disbursements		
Itemized	32,781.27	
Un-itemized	1,025.84	
Loans principal payments	1,735.00 2	
Total disbursements		<u>\$35,542.11</u>
Cash on hand at January 15, 2007		<u>\$32,745.86</u>
Loans outstanding at January 15, 2007		\$0.00
Obligations at January 15, 2007		\$1,000.00
Total in-kind contributions received		\$9,217.74

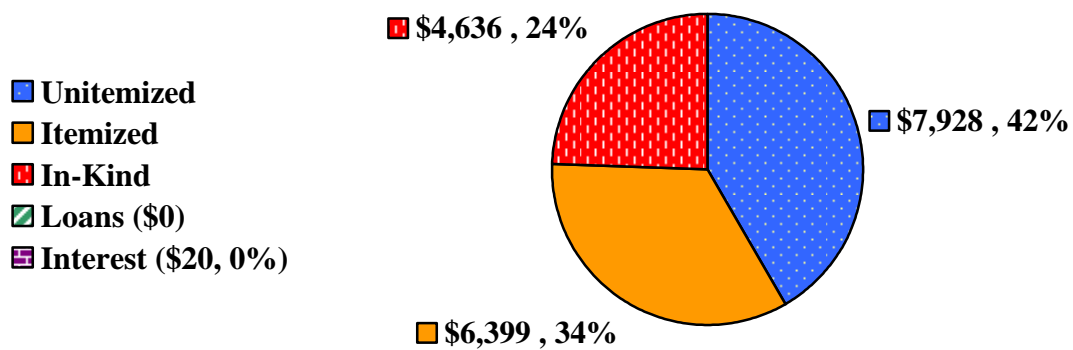
1 The cash balance at 1/1/2005 is funds transferred from the candidate's 2004 campaign.

2 This payment eliminates the outstanding loans from the candidate's 2004 campaign.

CHARTS

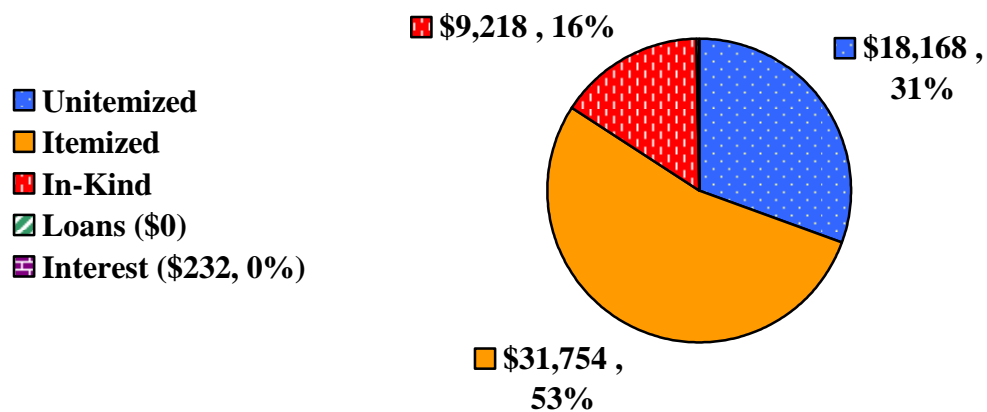
2006 THIRD QUARTER CONTRIBUTIONS

The following chart shows the contributions reported by the candidate in the 2006 third quarter financial disclosure report.



2006 ELECTION CAMPAIGN CONTRIBUTIONS

The following chart shows the contributions reported by the candidate for his 2006 election campaign.



OBJECTIVES, METHODOLOGIES, CONCLUSIONS

UN-ITEMIZED CONTRIBUTIONS AND RECEIPTS

Audit Objectives:

The objectives of our audit of un-itemized contributions were to determine whether:

- campaign contributions from individuals and Political Action Committees (PAC) were within limits;
- all contributions were from non-prohibited sources;
- all contributions received were reported, reported in the proper period, reported in compliance with T.C.A §§ 2-10-105 and 2-10-107, and reported in compliance with the Registry's rules; and
- all contributions were supported by bank statements and deposit slips.

Audit Methodology:

The Registry obtained Rep. Litz's 2006 Third Quarter Campaign Financial Disclosure Statement to verify that the un-itemized contributions were greater than \$5,000 and 30% of the total contributions reported. We requested Rep. Litz to provide supporting documentation for the un-itemized contributions of \$7,928 that he reported on his 2006 third quarter report. The candidate provided auditors with bank statements, copies of campaign deposit slips along with the related bank validated deposit receipts, copies of contributor checks, bank account reconciliations, detailed accounting records for deposits, a contributor contact list, tickets stubs from a fundraising event, and bid sheets from a fundraising auction. The following steps were performed on Rep. Litz's campaign documentation:

- The documentation was reviewed to determine if the candidate's un-itemized contributions received from July 25, 2006 thru September 30, 2006 totaled \$7,928.00.
- A list of un-itemized contributions was prepared and compared to the candidate's bank statements to determine if the candidate deposited all funds into a campaign bank account and properly recorded the funds.
- A list of un-itemized contributions by contributor was prepared and compared to the candidate's itemized contributions reported during the election to determine if campaign contributions from individuals and PACs complied with campaign contribution limits, T.C.A. § 2-10-301, et seq.

- An un-itemized contributions list was reviewed to determine if all contributions were reported, all receipts received were reported, all contributions were reported in the proper period, and all contributions were reported in compliance with T.C.A. §§ 2-10-105 and 2-10-107, and all contributions were reported in compliance with the Registry's rules.

Audit Conclusion:

Rep. Litz's 2006 Third Quarter Campaign Financial Disclosure Statement amended on December 13, 2006 had un-itemized contributions greater than \$5,000 and 30% of the total contributions and thus subject to audit. The campaign records indicated Rep. Litz received a total of \$7,928 in un-itemized contributions from July 25, 2006 to September 30, 2006. The listing of un-itemized contributions prepared from the candidate's campaign records indicated that the candidate deposited the un-itemized contributions that he received into his campaign account.

The review of the candidate's un-itemized contributions list indicated that several contributions disclosed as un-itemized contributions should have been disclosed as itemized contributions due to the candidate receiving additional contributions from the same contributors during the third quarter reporting period. In addition, the candidate failed to maintain adequate documentation of his annual barbeque and silent auction event, which resulted in the candidate reporting inaccuracies and incomplete data on his third quarter report. The details of these deficiencies are detailed in the findings section.

FINDINGS

1. Representative Litz failed to itemize all contributions from individuals who contributed more than \$100 during the reporting period.

Rep. Litz did not itemize all contributions for each individual who contributed a total amount of more than one hundred dollars (\$100) during the third quarter reporting period. The campaign records indicated the following errors:

- The candidate reported an itemized contribution of \$310 from an individual on his third quarter report. The candidate reported an additional \$40 contribution from the same individual in his third quarter un-itemized contributions.
- The candidate reported an itemized contribution of \$180 from an individual on his third quarter report. The candidate reported an additional \$40 contribution from the same individual in his third quarter un-itemized contributions.
- The candidate reported an in-kind contribution of \$124 from an individual on his third quarter report. The candidate reported an additional \$50 contribution from the same individual in his third quarter un-itemized contributions.
- The candidate reported an in-kind contribution of \$60 from an individual on his third quarter report. The candidate reported an additional \$100 contribution from the same individual in his third quarter un-itemized contributions.

- The candidate received two checks totaling \$150, one for \$100 and one for \$50, from an individual during the third quarter reporting period. The \$150 in contributions was included in the third quarter report's un-itemized contributions.
- The candidate received another two checks totaling \$150, one for \$100 and one for \$50, from an individual during the third quarter reporting period. The \$150 in contributions was included in the third quarter report's un-itemized contributions.

In all six instances, the candidate was required to itemize the un-itemized contributions. Since Rep. Litz improperly reported these six contributions, totaling \$530 (7% of un-itemized contributions), he violated T.C.A. § 2-10-107(a)(2)(A)(i), which requires contributions of more than \$100 in total from one source received during a reporting period to be itemized. The candidate must disclose the full name, complete address, occupation and employer of each individual, and the amount contributed by the individual for itemized contributions.

2. Representative Litz did not obtain adequate campaign data to report and verify his compliance with campaign finance laws.

Rep. Litz did not obtain adequate campaign data to support the un-itemized contributions disclosed on his 2006 Third Quarter Campaign Financial Disclosure Statement. Rep. Litz held a fund raising event on September 15, 2006, where he attempted to obtain adequate contributor information for admission fees, contributions, and silent auction sales. The candidate provided contributors with pre-numbered admission tickets that contained a place for the contributor to write his or her name, address, telephone number, occupation, and email address. The candidate sold the tickets in advance and at the event; however, he collected all stubs at the event. Even though the candidate provided contributors with documents to record their contributions, not all contributors documented their information completely. In addition, the names indicated on the admission ticket stubs did not always represent the actual contributor, but the attendee of the event. Not all admission contribution amounts could be associated to a specific individual due to the manner in which the candidate collected contributor information and not reconciling funds collected to the admission tickets sold.

In order to document the silent auction sales, Rep. Litz prepared bid sheets for each item in the silent auction. The bid sheets indicated the contributed item, the name of the individual or business that donated the item, the value of the item, the names of the bidders, and the bid amounts. The final bidder and bid amount should indicate the contribution; however, Rep. Litz stated that not all of the silent auction items sold due to not meeting minimum bid requirements. In addition, the candidate did not indicate which contributions were from auction sales, admission ticket sales, and direct campaign contributions in his accounting records. The candidate did not perform a reconciliation of auction sales to funds collected; therefore, not all auction sales amounts could be associated with a specific individual.

The inability to associate specific contributors with contribution amounts inhibits the candidate's ability to verify compliance with campaign finance statutes. We could not verify compliance with the following campaign finance statutes for all un-itemized contributions:

- T.C.A. § 2-10-107(a)(2)(A)(i) requires contributions of more than \$100 from one source received during a reporting period to be itemized. The itemized information for each contributor must include name, address, occupation, employer, date, and amount of the contribution.
- T.C.A. § 2-10-302 establishes limits on contributions to candidates from an individual or multicandidate committee (PAC).
- T.C.A. § 2-10-311(a) limits a cash contribution to \$50 per election for each contributor.

RECOMMENDATION TO CANDIDATE

The Registry audit staff recognizes that the use of pre-numbered admission tickets and auction bid sheets for fund raising events are acceptable procedures for collecting contributor information. In addition, the Registry realizes that a candidate cannot supervise all individuals to ensure they provide the proper contributor information, nor oversee all staff to know if contributors documented the correct information. However, the candidate must attempt to track contributor information for the actual individual (contributor) that purchased the admission tickets or silent auction items. The following is a list of recommendations for fund raising events:

- Admissions tickets or other documentation should be prepared and campaign workers instructed to attempt to record, at minimum, the contributor's (purchaser) name, amount contributed (paid), and the date of receipt. If the candidate is collecting information for itemized disclosures, the candidate should also provide admission tickets or other documentation that includes the contributor's address, occupation, and employer.
- The candidate should consider collecting the contributor's information at the time of purchase. By doing so, the individual purchasing the admission ticket can provide contributor information based on the campaign worker or candidate's guidance. The candidate can then properly disclose or track the purchaser as the contributor.
- Candidates should maintain copies of contributor checks or a listing of all contributions received. Registry rule 0530-1-3-.05 for bookkeeping procedures states that a candidate must be able to determine aggregate amounts for contributors through his/her record keeping system.
- When the candidate uses admission tickets or bid sheets to document campaign finance activities, the candidate should consider documenting the amounts paid, the number of tickets sold, and the form of payment (check or cash). The candidate should also consider reconciling admission tickets and/or auction sales to the funds received for the activity or event.

Representative Litz should amend his 2006 third quarter disclosure statement by itemizing the \$530 that is currently included in the un-itemized contribution amount.

RECOMMENDATION TO REGISTRY

We recommend the Members of the Registry consider the findings for possible further action. We recommend the Registry approve the audit performed as being sufficient and complete. Finally, we recommend the Registry post the audit report to the Registry's web site notwithstanding whether a significant penalty is assessed, as outlined in T.C.A. § 2-10-212(f). The report and related finding will assist current and future candidates in understanding the audit process, the purposes of Registry rules, and types of procedures needed to comply with campaign finance laws.

RESOLUTIONS

CANDIDATE'S CORRECTIVE ACTIONS TAKEN

After discussing the above findings with Rep. Litz, he chose to take corrective action on his reports prior to the Registry's approval of the audit. The candidate amended his 2006 Third Quarter Campaign Financial Disclosure Statement on July 24, 2007. The corrective actions detailed below resulted in a new aggregate amount for un-itemized contributions of \$7,389.

Correction Action Finding 1:

On his amended his third quarter report, Rep. Litz moved \$530 from un-itemized contributions to itemized contributions by making the following changes;

- He increased one individual's itemized contribution by an additional \$40.
- He increased one individual's itemized contribution by an additional \$40.
- He added an itemized contribution of \$50 from one individual.
- He added an itemized contribution of \$100 from one individual.
- He added an itemized contribution of \$150 from one individual.
- He added an itemized contribution of \$150 from one individual.

REGISTRY OF ELECTION FINANCE ACTIONS

The Members of the Registry of Election Finance reviewed the 2006 contribution audit of Representative John Litz during the August 8, 2007 regular monthly meeting. The report contained two findings with recommendations for corrective actions. The Registry voted to approve the audit report and to issue a show cause notice for failing to itemize all contributions from individuals who contributed more than \$100 during the reporting period. Subsequent actions by the Registry related to the show cause notice will appear in the subsequent board minutes.